Notes From:
"RECOMMENDED PRACTICE -- Improving the Effectiveness of Fund Accounting"
GFOA, Adopted March 26, 2004

One important objective of external financial reporting is to help users assess accountability by "assisting in determining compliance with finance-related laws, rules, and regulations."[1] To achieve this goal, state and local governments organize and operate their accounting systems on a fund basis.[2]

State and local governments frequently establish a large number of "funds" for internal accounting purposes. Having internal "funds" often are useful or necessary to provide the level of detail needed to ensure and demonstrate legal compliance. In this regard, however, the goals of accounting differ somewhat from the objectives of financial reporting. Whereas an accounting system must collect all of the data needed to ensure and demonstrate legal compliance, financial reporting should be concerned only with those aspects of compliance that are of importance to users of general purpose external financial reports. Consequently, not every internal "fund" should automatically be classified as a fund for purposes of external financial reporting.

As specifically noted in the authoritative accounting and financial reporting standards, the use of unnecessary funds for financial reporting purposes, can "result in inflexibility, undue complexity, and inefficient financial administration." Accordingly, those same authoritative standards state that "only the minimum number of funds consistent with legal and operating requirements should be established."[3] Unfortunately, many state and local governments continue to report more funds in their comprehensive annual financial report than are truly necessary to achieve the goals of general purpose external financial reporting, thereby needlessly adding to the length and complexity of that report and potentially increasing audit fees.

GFOA recommends that every state or local government that uses fund accounting establish clear criteria for determining whether a given internal "fund" should be classified and reported as an individual fund in the government's comprehensive annual financial report (CAFR). The application of these criteria to individual internal "funds" of the government should be documented.

Whenever it is possible to do so without sacrificing the goals of fund accounting, similar internal "funds" should be combined into a single fund for external financial reporting purposes. For example:

- When a government has numerous debt issues outstanding, a single debt service fund could be used in many instances for all of the smaller debt issues
- Governments with numerous capital projects may wish to consider combining their less significant projects into a single capital projects fund.

[1] "Objectives of Financial Reporting", Governmental Accounting Standards Board (GASB), Concepts Statement No. 1, July 2004, paragraph 32.
[2] "Governmental Accounting and Financial Reporting", National Council on Governmental Accounting (NCGA), Statement 1, Principles, paragraph 2.
[3] Ibid., paragraph 4.

- Grants for similar purposes (e.g., special education) could be combined into a single special revenue fund. In many cases, activities now reported in a separate fund in the CAFR might better be included as part of the general fund.
- Governments could limit their use of internal service fund accounting to situations where the difference on charges to other funds between accrual and modified accrual accounting is expected to be significant.

Every state or local government that uses fund accounting should periodically undertake a comprehensive evaluation of its fund structure to ensure that individual funds that have become superfluous are eliminated as such from the CAFR. Elected officials should be educated to the fact that accountability may be achieved effectively and efficiently in many instances solely by the use of internal "funds."

Notes From:
"Fund Accounting vs. Commercial Accounting for Nonprofits"
SAGE Software White Paper, 2005

What is Fund Accounting?
Commercial organizations have accounting systems that measure product, division and company performance by gain and loss of profits. Accounting systems for nonprofit organizations (and sometimes government agencies) only begin by measuring incoming and outgoing monies—they must do much more. Nonprofits have social and legal responsibilities that extend beyond the balance sheet. They must also carefully track and report on separate sums as they move though their programs in the forms of "funds." Major donations and grants are commonly given with a set of specific and unique requirements, restrictions and responsibilities. The associated funds are either "restricted" or "unrestricted." Failure to demonstrate that "restricted" funds have been used correctly can have some serious organizational consequences, including termination of executives, loss of funding and worst case, loss of tax-exempt status. This type of accounting for noncommercial entities is called fund accounting. Solutions that deliver fund accounting like the Sage MIP Fund Accounting product line are specially designed to help nonprofits meet those tracking responsibilities and handle the special requirements that may come with each new source of funding.

How does fund accounting work?
Consider this example: A food bank has received a grant specifically for helping children get enough milk and a major donation from a corporate foundation for building a soup kitchen. The food bank will need to track how those funds were specifically used for milk or children's programs to report back to one grantor, and will need to track the soup kitchen building fund separately, as milk-program donors may object if their monies are used for roofing material. Fund Accounting is set up to track and report on the specific projects separately to each set of donors, as well as together for overall organizational outlook reports. This is a very common situation in the nonprofit sector — health funds may be restricted for preventive care only or technology funds commonly may be used only to purchase software — not pay the light bill. Donors and grantors also want to review not only that their donated monies are restricted as requested, but to also review the overall use and results from the funds. Nonprofits cannot pool their money into general operations the way commercial businesses do, and often it is critical to track each different fund source to each relevant activity, so donors and granting agencies can

see exactly where their money went, which encourages them to continue their support in following years.

As the example above illustrates, reporting is a critical issue and function for these organizations, as their continued funding can depend on reporting accuracy. Also, organizations that are able to provide this detailed level of reporting have a much better chance of seeing their funding and the scope of their mission increased.

The features of fund accounting largely reflect the importance of flexible but accurate reporting for nonprofits. For example, fund accounting is also different from traditional business accounting in its time period flexibility. Each grant and donation may be applied for and granted annually, but each funding agency or organization may function on unique timetables that probably do not correspond with those of the other grants. So, while commercial accounting often assumes a fiscal year that ends in the same month each year, nonprofits often have to report to several different audiences, with different information requirements and reporting timelines. One foundation may want yearly reports that span the period from January 1 to December 31, while another requests them to reflect from July 1 to June 30. Yet another may request biannual reports. Thus the ability to track and report across different time periods is critical for nonprofits and is a key attribute of solid fund accounting.

Nonprofits also require a great deal of flexibility in the types of reports that they must produce. Nonprofits have to comply with the stringent reporting standards of the Financial and Governmental Accounting Standards Boards (FASB & GASB), as well as the private and public granting agencies that require detailed reports in their own unique formats. If they want to win more donations, they may need to create compelling reports for potential donors. Each of these audiences and the reports that are specific to them will have unique requirements. They need access to sophisticated, audit-level reports for good accounting, as well as simple, high-level reports that can be understood by less accounting-savvy audiences. Flexibility of detail and presentation is critical in solid fund accounting. Graphing and charting capabilities to ease presentation of complex financials are also extremely helpful to nonprofits.

In addition, nonprofits can be limited to the grants that they can pursue and maintain, due to the time investment required for the financial administration for each grant. Any tool that helps streamline the tracking and management of grant processes, budgets and required reports can enable an organization to seek additional funds.

Many nonprofits use commercial accounting products initially, but once most organizations have multiple funding sources, they find that off-the-shelf accounting software will not meet their special tracking and reporting requirements. The process can grow impractical and difficult to maintain. At worst, it can open the door to costly errors and complex audits. Good fund accounting meets the complex fund tracking and flexible reporting requirements that are vital to a nonprofit’s continued ability to serve its community.

Notes From:
"BUCS Government Fund Accounting"
Presentation slides, Frey Software, 2001

Government Fund Accounting is Different!

- It is not multi-company commercial accounting. It goes beyond commercial requirements both in form and function.
- Separate accounts are maintained for each fund. Commercial systems maintain separate revenue and expense accounts, but co-mingle balance sheet accounts. This is not permitted in fund accounting.
- Reports measure performance against budgets and income versus expenses. Commercial system reports measure income versus expenses
- Governmental agencies operate on budgets established by law: You are not permitted to exceed budget limits without amendments that have been legislated. Fund accounting provides mechanisms, like encumbering, to monitor these requirements closely.
- Reports indicate when limits have been exceeded. These controls do not exist in commercial and many nonprofit accounting systems.
- GASB (Governmental Accounting Standards Board) Statement 34: Imposes additional standards that further differentiate government fund accounting from nonprofit fund accounting. These requirements define new classifications, especially on revenue reporting. They also require a different financial reporting model than required for nonprofits.
- Requires the functionality of a commercial accounting system
- Provides additional functionality needed for nonprofit or government fund accounting
- Requires additional budget controls and reporting needs that go beyond those of commercial and nonprofit fund accounting systems

Notes From:
"FINANCIAL ACCOUNTING AND FUNDS MANAGEMENT"
SAP white paper no. 50 053 577, April 2005

The traditional organizational structures and processes of government agencies have been put under the microscope due to tight funds and the growing demands of citizens. Government agencies can add modern, double-entry bookkeeping methods to increase cost transparency and targeted control to their core, existing instruments for fiscal accounting.

Modern funds management systems should have:

- FUNDS MANAGEMENT WITH ACTIVE AVAILABILITY CONTROLS – a system that plans and controls the flow of revenues and expenditures, guides the user through planning and creating budgets, and uses active availability control to monitor management appropriation.
- Ability to IDENTIFY POSTING LIMITS IMMEDIATELY -- the solution provides the data for passive availability control in the form of budget monitoring lists. Active availability control displays budget limits, taking eligibility into account when posting documents. Included are:
    - Control and management of earmarked funds and funds blocking

- Workflow support for requests processing
- Procedures for year-end closing
- Management of funds from secondary sources
- Functional coverage of cash accounting tasks

- HIGH-PERFORMANCE REPORTING -- Easy-to-use functions for navigating the data ensures transparency, a constant overview of all aggregation levels, and access to original business transactions.
- SIMULTANEOUS OR STAGGERED APPLICATION ACCOUNTING METHODS -- funds management tasks can be used simultaneously for fiscal accounting or started at different intervals. The general ledger acts as an integrated checkpoint for all business transactions in this process and has a central role in double-entry bookkeeping.
- HIGHLY FLEXIBLE EVALUATION OF FIXED ASSETS -- Integrated posting simulation provides a preview of future depreciation.
- KEY INTEGRATION -- Funds management is an integral part of the total solution, providing up-to-the-minute information on funds commitments resulting from purchase orders (through materials management/procurement). Accounting transactions should be posted to funds management in such a way that allows the user to keep track of all processes from down payments, invoices, and payment clearings. Commitment management reporting enables you to monitor various funds commitments and determine how much of the budget has been consumed by using a budgeted-actual comparison. Asset management transactions that affect the budget are also reflected in funds management.

Notes From:
"Fund Accounting Software Checklist"
Don Frey, Frey Software, 2001

This paper is intended to provide a checklist of points to consider when searching for this very specialized software. The list is not all-inclusive. However, it is a good starting point for one's needs.

Organization Type
Fund Accounting software tends to be divided into two major groups, government and nonprofit. Government fund accounting requires additional restrictions and controls not required for nonprofits. Nonprofits require special reports and distributions that are not needed by government agencies. Make sure the product you are reviewing specifically states that it is designed to meet the needs of your organization.

Software Features
The items listed here are features that distinguish a good fund accounting system from a commercial application. Items like general ledger, accounts payable, etc. are not mentioned because both commercial and fund accounting systems need these capabilities.

- Does it have a large free form account number? Most fund accounting applications require additional groupings and breakdowns. Commercial account numbering schemes are often inadequate.

- Can it handle both cash and accrual basis funds concurrently? Many operations require this ability. Example: a museum gift shop needs to be on an accrual basis, but the general fund needs to be on a cash basis.
- How large can the amounts be? Some low end products cannot handle the large figures required for fund accounting. The system should be able to handle numbers up to 1,000,000,000.00.
- Can the system handle the number of funds required? A good fund accounting system should not have a limit on the number of funds.
- Does the software offer security? Application access should be regulated by program and user.
- Can invoices be paid from multiple funds using a single check? Many commercial and low end fund accounting systems fail this test. It is a very important feature. It can drastically reduce the number of checks being written.
- Can multiple checking accounts be used, if necessary? Some organizations need to be able to maintain multiple checking accounts.
- Is Grant/Project tracking available? Grants and projects often require different reporting requirements. They must be reported for different periods. They also require reporting on a to-date basis for the life of the grant.
- Does it process encumbrances? This is an *absolute must* for many government operations. And, if you encumber, the system should definitely have real time processing.
- Does the budget planning allow for global changes? Fund accounting operations tend to have a very large number of accounts. Global change capabilities allow the user to quickly create and change budgets with a minimum of input.
- Do the available reports meet the needs of a fund accounting operation? Fund operations need revenue and expense reports in addition to the standard reports offered by commercial systems. They depict comparisons between actual revenues and expenses versus budgets.
- If you are a government, does the system support GASB 34 reporting requirements?

Notes From:
"Fund Accounting"
Definition posted on http://www.cpafinder.com/accounting/fund-accounting.html, 2006

Many business people are unfamiliar with fund accounting. This type of accounting, however, serves to facilitate expenditure control and stewardship reporting in the public sector. The concept of separate record keeping for separate funds is not exceedingly difficult, but care must be taken that fund accounting based financial reports are presented in a straightforward manner, since separate reporting on a large number of separate "funds" quickly becomes confusing. In their book, A Brief Introduction to Managerial and Social Uses of Accounting (1975), May, Mueller and Williams[4] note that the oldest control technique utilized for not-for-profit organizations is probably the segregation of appropriations into separately established funds. For instance, a small

[4] "A Brief Introduction to Managerial and Social Uses of Accounting", Robert G. May, Mueller, G. and Williams, T., paperback, 1975

city government may have a fire department fund, a water department fund, a traffic court fund, a street and engineering fund, a planning commission fund, a public school fund, and so on.

In fund accounting, it is standard practice to distinguish between a general fund and special purpose funds. The general fund normally provides the resources required to operate the unit or agency on a day-by-day basis. The wages of employees, building maintenance, and general office expenses are items that are then chargeable to a general fund. By contrast, *special funds* are established to yield accountability for separately identifiable activities which make individual control procedures necessary or desirable. “The pervasiveness of fund accounting is illustrated by the fact that the semiannual Uniform Certified Public Accountants Examination usually contains at least one lengthy problem on this subject. Undergraduate accounting curricula of colleges and universities often devote at least one quarter or semester course to fund accounting”.[5]

Notes from:
“GASB White Paper: Why Governmental Accounting and Financial Reporting Is—and Should Be—Different”
Government Accounting Standards Board, 2004

Executive Summary
Governments are fundamentally different from for-profit business enterprises in several important ways. They have different purposes, processes of generating revenues, stakeholders, budgetary obligations, and propensity for longevity. These differences require separate accounting and financial reporting standards in order to provide information to meet the needs of stakeholders to assess government accountability and to make political, social, and economic decisions. Although state and local governments in the United States have had separate standards for over 100 years, occasionally the question is raised: Why can’t general purpose governments (cities and counties, for example) simply apply the standards established for business enterprises? The following questions and answers briefly address that issue, and the accompanying paper and its appendixes provide an expanded discussion.

Why Are Separate Accounting and Financial Reporting Standards Essential for Governments?
Separate accounting and financial reporting standards are essential because the needs of users of financial reports of governments and business enterprises differ. Due to their unique operating environment, governments have a responsibility to be accountable for the use of resources that is significantly different from business enterprises. Although businesses receive revenues from a voluntary exchange between a willing buyer and seller, governments obtain resources primarily from the involuntary payment of taxes.

Taxes paid by an individual taxpayer often bear little direct relationship to the services received by that taxpayer. Overall, taxpayers collectively focus on assessing the value received from the resources they provide to government. Governmental accounting and financial reporting standards aim to address this need for public accountability information by helping stakeholders assess how public resources are acquired and

[5] Ibid., p. 69.

used, whether current resources were sufficient to meet current service costs or whether some costs were shifted to future taxpayers, and whether the government's ability to provide services improved or deteriorated from the previous year.

The longevity of government and its role to maintain and enhance the well-being of citizens through the provision of public services also result in information demands that differ from those of business enterprises. For example, governments do not operate in a competitive marketplace, face virtually no threat of liquidation, and do not have equity owners. Consequently, information on fair values of capital assets is of limited value and measures of net income and earnings per share have no meaning to users of governmental financial reports. Instead, users need information to assess the government's stewardship of public resources, including information to evaluate the manner and extent to which resources are devoted to specific services and the costs of providing those services. Users also need information to determine compliance with legally authorized spending authority. Creditors of both businesses and governments are interested in information on the ability to repay debt. However, government creditors focus more on information regarding the government's ongoing ability to raise taxes and the costs of activities that could compete for those resources, rather than on information about how earnings are generated.

How Do Existing Accounting and Financial Reporting Standards Reflect the Different Needs of Stakeholders?
The needs of the users of governmental financial reports are reflected in differences in the components of the conceptual framework for accounting standards and in individual accounting standards. Although investors and creditors are important constituencies of every standards-setting organization, the Governmental Accounting Standards Board's (GASB) conceptual framework also places priority on addressing the informational needs of citizens and elected representatives, two constituencies not identified as users of business enterprise financial statements by the Financial Accounting Standards Board (FASB). Consequently, the GASB's financial reporting objectives consider public accountability to be the cornerstone on which all other financial reporting objectives should be built.

Some of the most significant GASB standards that address differences in governmental and business financial reporting include:
(1) the measurement and recognition of certain types of revenues (for example, taxes and grants),
(2) the view that capital assets provide services to citizens rather than contribute to future cash flows,
(3) the use of fund accounting and budgetary reporting to meet public accountability needs,
(4) the use of accountability principles rather than equity control to define the financial reporting entity, and
(5) the treatment of pensions and other post employment benefits to allocate cost of services equitably to applicable periods.

Notes From:
"GASB Statement 34 Has Major Impact On Government Accounting"
Don Frey, Frey Software White Paper, 2000
http://www.drfrey.com/gasb.html

In June 1999, the Governmental Accounting Standards Board (GASB), published comprehensive changes in state and local government financial reporting. This revolutionary reporting standard provides a new look and focus for reporting public finance in the United States.

GASB is the independent private sector organization, formed in 1984, that establishes and improves financial accounting and reporting standards for state and local governments. These standards effect more than 84,000 units in the US, not including the federal government.

The new standard will take effect on the following schedule, based on revenues, starting in fiscal years, beginning after June 15:

- Large governments, over $100 million, in 2001.
- Medium governments, $10 - $100 million, in 2002.
- Small governments, under $10 million, in 2003.

Statement 34 is the most sweeping fund accounting standard the accounting software industry has seen in more than 30 years. It is seen as causing a major accounting reorganization for most governments. This article is not going to get into a detailed discussion of all aspects of Statement 34. However, it will comment on several key parts of the requirement that will require substantial changes.

The new standard calls for financial statements prepared using full accrual accounting for all of the government's activities, not just those that cover costs by charging a fee for services, which was previously required. Typically, those funds included parks, utilities, etc. Today, the vast majority of local governments operate on a Cash or Modified Accrual basis. A number of public entities don't even maintain balance sheets, by fund. This new requirement will certainly tax the financial expertise and resources of many of those affected.

Reporting will be required on all capital assets, including the infrastructure, in the government-wide statement of net assets and will report depreciation expense. Few governments maintain fixed asset records, much less asset records on their infrastructure.
The format of the newly required reports represents an extensive departure from those of the past. They require new information, grouping and layout specifications that will be challenging to fulfill.

Government-wide statements will be required, consisting of a statement of net assets and a statement of activities. The statements will distinguish between government and business type activities as-well-as reporting by component units.
Fund based financial statements will be required that provide information about the government's major and other government and enterprise funds. These reports will

include by fund, balance sheets, statements of revenue, expenditures and changes in fund balances.

Supplementary information will be required comparing original, final and actual information on the budgetary basis for the general fund and major special revenue funds.
One set of financial statements will include a comparison of current to prior year's financial position. This means that one will need to upgrade their chart-of-accounts to the GASB 34 requirements, a year before they implement the new reporting Standard. If this is not done, the information will not be easily available for the prior years comparison.

In the past, accounting was divided into 'commercial' (or for profit) and 'fund' (or not-for-profit) accounting. With the advent of the GASB Statement 34 requirements, we see subdivisions developing in the not-for-profit market between government and nonprofit fund accounting operations. These new requirements more clearly define the need for true fund accounting software versus commercial applications with report overlays. Products that cannot create separate balance sheets, by fund, will not work.

Notes From:
"Fundamentals of Fund Accounting, Funds 101"
Comptrollers Office, Carruth-O'Leary, University of Kansas, posted at
http://www.comptroller.ku.edu/FIN_MANAGEMENT/fundamentals.aspx

Fund accounting is designed to segregate revenues and expenses (by fund) to enable an institution to track and report activity for a particular purpose. At KU (Lawrence) we generally have three sources of funds: state appropriations, tuition, and restricted fees.

For our purposes, there is a single state general fund appropriation – it is fund 003. This is our "operating grant" and can be used for all allowable purposes (salaries, operating expenses, and capital expenditures). There are occasionally other state appropriations, but they are generally for specific purposes – state water plan funding for the Geological Survey, fire marshal funds for Fire Service Training, and the Faculty of Distinction matching funds. Our state general fund appropriation for FY 2005 is $136,646,183. This includes $6,093,902 for the Kansas Geological Survey. Technically we have authority to carry these funds forward into the next fiscal year. However, the Budget Division and Legislature eventually take action to approve the "reappropriation" and that makes any carry forward very visible and very tempting for the Legislature or Governor to sweep up or use to finance our current or future year budget, thus taking the funds from us. For this reason, we have not used our carry forward authority for state general funds for several years and do not wish to do so and risk losing the funds.

The second, and perhaps more important, source of funds for us is tuition. All forms of tuition are estimated to generate approximately $145.6 million in FY 2005. Tuition is estimated (and then monitored), because it depends on our actual enrollment, the mix of resident and non-resident students, graduate and undergraduate students, and specific program enrollments (those with differential tuitions.) We segregate tuition into a number of funds – both for our own purposes and by legislative "appropriation." These funds are appropriated because we made specific requests to create the funds before we "owned" our tuition. The appropriation consists of permission to spend the funds for the purpose for which they are collected. The funds are delegated to us in the same sense that tuition is – without limit and based upon our collections. Tuition can be spent for salaries and operations, and starting this fiscal year, for capital improvements. We have created a number of funds to track and separate a number of activities – some specifically enumerated in our appropriations, while others are not.

The third general source of funds is "restricted fees." Restricted fees are revenue funds whose purpose is limited simply to "the purpose for which they were collected is the purpose for which they are spent." We have well over 100 of these funds. For general discussion, we refer to these as "700 funds" or 7XX funds since most of the common funds are in the 700 series of funds. The generic fund is 700 – also called income accounts. Grants are another significant source of restricted fees. Fund 720 is used to designate sponsored projects funded through KUCR. Fund 721 is the indirect cost recovery (overhead) earned on sponsored projects. Fund 725 is for KUEA funds run through our accounting system. In each case revenue is collected and expended for "restricted" purposes. The common uses of 700 funds are for application fees, photocopy accounts, sales of services (FO, Computing, etc.), storerooms, and many other departmental activities and units. Study Abroad, the Applied English Center, the various clinics and animal care activities are other examples of units funded from revenue. These funds can be used for salaries, operations and capital improvements – if the justification for collecting the funds include those expenditures. In general, any charges must be approved by the Provost Office before engaging in revenue producing activities.

Notes From:
"Accounting Services"
Posted by University of Virginia, at
http://www.virginia.edu/finance/genacct/fundacctovr.html

I. Current Funds
   A. The current funds group includes those economic resources expendable for the chief missions of the institution
      1. Instruction, research and public service and their related supporting services and auxiliary enterprises
   B. Used for operating purposes expended in the near term, includes two basic subgroups
      1. Unrestricted are all funds received where the donor or other external agency has not specified an expenditure purpose
      2. Restricted current funds are available for financing operations but are limited by donors or agencies to specific departments, programs, departments or schools
   C. Any fund that could be used for operating purposes must be initially recorded as an addition to current funds
      1. Example: Unrestricted gift transfers to quasi-endowment
      2. Income must first be recorded as current funds and then transferred to an endowment so the administrative decision to transfer the funds can be disclosed in financial reports
   D. Restricted fund must have the constraint considered

1. If the restraint does not prevent it from being used for operating purposes the fund is recorded as a current funds receipt
2. If non-operating purpose is specified such as construction the receipt must be recorded in the appropriate fund group

E. Student fees in tuition to retire outstanding bonds
   1. Initial fees are deposited to current funds and then transferred to plant funds to cover mandatory transfer of funds and reported as such

F. Specific fee to satisfy debt service that is not part of tuition can be deposited directly to plant funds

II. Current Fund Activity
   A. Revenues are reported by sources in financial statements of Universities
      1. Tuition, gifts, federal grants and contracts, etc…There may be further breakdowns to analyze trends in fund sources; funds should also be identified as restricted or unrestricted
         a. Unrestricted funds can be used to meet unexpected needs, this cannot be done with restricted funds
   B. Information is provided on a wide variety of expenditure classifications
      1. Type of expenditures and by school, department or division are provided; activities include instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, scholarships, fellowships and auxiliary enterprises; information is provided by identification of expenditures by object such as salaries, supplies, and equipment
         a. Further breakdowns can occur from here

III. Principal Financial Statements
   A. Statement of Current Funds Revenues, Expenditures, and Other Changes report
      1. Reports revenues by source categories and expenditures by major function; separated unrestricted and restricted funds
      2. Summarizes the additions and deduction from each fund during the fiscal year
   B. Balance Sheet
      1. Statement of financial position at a given point in time; funds are grouped into self-balancing fund groups according to the major purposes for which they are available
      2. Within current funds unrestricted and restricted are segregated

IV. Unrestricted Funds
   A. Since no constraints exist on the use of the funds it is considered revenue when it is received
      1. Must be reported as revenue in the year it is received
   B. May be divided into subgroups for accounting and reporting to assist in managing resources and activities
      1. Subgroups must be totaled on all statements to show the total unrestricted funds activity and funds balance; must provide full disclosure on the status of the balance including internal and external commitments
         a. Portion of the funds may be encumbered by purchase orders or contracts for future services

2. The governing board may also designate a portion of it for a special purpose
   a. Unrestricted funds available for use at some future date

C. Three categories of restricted funds: unallocated, committed, and designated; these funds may be transferred by a governing board action or board policy to other major fund groups for purposes associated with those groups
   1. Even if transferred they must remain earmarked unrestricted since the action can be cancelled at any time

V. Restricted Funds
   A. Limited to purpose by funding source external to the institution
      1. An identity must be maintained for the fund
   B. May group funds with a common purpose, but must insure proper use of each fund
      1. Reporting requirements also limit how much aggregation of funds can occur
   C. Generally funds should be kept separately; until restrictions on expenditures have been met restricted funds are not realized as revenue
      1. Reported only to the extent that expenditures occur
      2. Therefore current funds balance on the Statement of Changes in Fund Balances will not match the revenue (expenditures) reported on the Statement Of Current Funds Revenues, Expenditures, and Other Changes
   D. Statement Of Changes In Fund Balances reflects the inflow of from external sources
   E. Statement of Current Funds Revenues, Expenditures, and Other Changes reflect the amounts expended or outflows

VI. Transfer of Funds
   A. Transfers resulting from requirements imposed by external sources are called mandatory transfers
      1. Basis of transfer is contractual such as bond indenture
   B. Transfers resulting from administrative actions are voluntary or non-mandatory transfers; distinction is made to separate those that must be met from those that are at the discretion of administrative actions; distinction must also be made between permanent and temporary transfers
      1. May transfer funds temporarily while awaiting funds from an external source; a receivable is set up in current funds as "due from XXXX"A payable will be set up in the fund that received the advance as "due to current funds"
      2. Temporary is repayment to occur in a reasonable time
   C. Expenditure transfer is used to transfer expenses from one department to another when resources are exchanged; service activities establish a rate per unit of goods and services that is a composite of various charges incurred and bill departments accordingly
      1. Storehouses, vehicle fleets, copy services etc…Service centers should have no gain or loss over time
      2. Amounts credited to service departments are not revenue but are internal sales

VII. Equipment Acquisition

A. At department level it is simply an expenditure from the fund; at institutional level the institution has only exchanged one resource (cash) for another (equipment)In the investment in plant section of plant funds, debit equipment account and credit equity account (net investment in plant)
   1. There is an expenditure of funds in one fund group and an asset addition to another

VIII. Matching Funds
A. Funds must be earmarked so they can be identified that we did meet matching requirements
B. Work study programs must be paid for service received so it is recorded as expenditure of the activity receiving services not of student aid

IX. Institutional Budget
A. Must be a plan for how to use resources and what resources will be received; becomes the financial game plan that assists in controlling institutional resources and in achieving institutional objectives
B. Budget revisions should be made throughout the year to insure continued control over resources and attainment of objectives

X. Budget Expenditure Reports
A. Budget expenditure reports can be done by department or expenditure class

XI. Encumbrances
A. Commitment of resources prior to actual expenditure; liens against resources; reporting must Include expenditures as well as encumbrances to ascertain status of resources
B. Encumbrance is cancelled when expenditure is made

XII. Post-Performance Review
A. Budget versus actual expenditures and revenues during the period; budget revisions during the period; achievement of goals during the period; should be presented to CEO and governing board; useful in forming next year's budget; books are closed or zeroed out at end of year
   1. Information in temporary annual accounts are transferred to the net effect of such activity on the appropriate fund balance accounts
      a. Similar to closing to retained earnings except there are separate funds